

Message Text

CONFIDENTIAL

PAGE 01 BUDAPE 03225 01 OF 02 120915Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-03 INR-10
NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 L-03 /066 W
-----074962 121103Z /15
R 111456Z AUG 78
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 0000
INFO USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 BUDAPEST 3225

E.O. 11652: GDS
TAGS: EEWT, HU
SUBJECT: CALL BY DOW CHAIRMAN MERSZEI ON AMBASSADOR

REF: A) BUDAPEST 1967, B) 77 BUDAPEST 4126

1. SUMMARY: DURING RECENT CALL ON AMBASSADOR, DOW CORPORATION CHAIRMAN ZOLTAN MERSZEI SUMMARIZED KEY POINTS RAISED AT AUGUST 7 MEETING BETWEEN GOH OFFICIALS AND GROUP OF WESTERN BUSINESS LEADERS OF HUNGARIAN DESCENT INVITED TO HUNGARY BY HUNGARIAN CHAMBER OF COMMERCE. MERSZEI ALSO MENTIONED HIS COMMENTS CHALLENGING HUNGARIAN OFFICIALS TO REALIZE MEANINGFUL COOPERATION ARRANGEMENTS WITH WESTERN FIRMS. END SUMMARY

2. ZOLTAN MERSZEI, CHAIRMAN OF BOARD, DOW CORPORATION, AND 21 OTHER WESTERN BUSINESS LEADERS OF HUNGARIAN DESCENT WERE INVITED BY HUNGARIAN CHAMBER OF COMMERCE TO VISIT HUNGARY DURING WEEK OF AUGUST 6-12 FOR SERIES OF SEMINARS, LECTURES, AND TOURS THROUGH COUNTRYSIDE. MERSZEI, UNOFFICIAL SPOKESMAN FOR GROUP, CALLED ON AMBASSADOR ON MONDAY, AUGUST 7, AND DISCUSSED SUBJECTS RAISED DURING MONDAY MEETING WITH GOH OFFICIALS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BUDAPE 03225 01 OF 02 120915Z

3. MERSZEI SAID THAT GOH OFFICIALS DEMONSTRATED CONSIDERABLE PRIDE IN HUNGARY'S ECONOMIC ACHIEVEMENTS, CULTURAL UNIQUENESS, AND HISTORICAL IDENTITY. HE OBSERVED THAT OFFICIALS DISCUSSED THEIR PROBLEMS AND HOPES WITH AN EASE AND OPENNESS NOT FOUND IN SOVIET UNION AND OTHER EASTERN EUROPEAN COUNTRIES. FOR EXAMPLE, WHILE ELABORATING ON MISTAKES HUNGARY MADE IN ITS OVERZEALOUS

NATIONALIZATION OF ECONOMY AFTER WORLD WAR II AND BUREAUCRATIZATION WHICH RESULTED, OFFICIALS WERE EAGER TO POINT OUT THAT AT LEAST THEY COULD DISCUSS THIS OPENLY IN HUNGARY AND THAT SAME COULD NOT BE SAID ABOUT OTHER COUNTRIES IN EASTERN EUROPE AND CERTAINLY NOT ABOUT SOVIET UNION. HUNGARIAN OFFICIALS POINTED OUT TO VISITING GROUP THAT THEY WISHED TO CONTINUE ECONOMIC LIBERALIZATION PROCESS WHICH BEGAN IN LATE 60'S BUT THAT THEY FACED TREMENDOUS PROBLEMS IN DOING SO. SOME NOTED, FOR EXAMPLE, THAT MANY OF LAWS WHICH GOVERN CONTRACTS AND OTHER MATTERS BASIC TO CONDUCT OF BUSINESS WERE WRITTEN AT THE TIME OF AUSTRO-HUNGARIAN EMPIRE. WHILE MANY OF THESE LAWS SHOULD BE CHANGED, A THOROUGH CHANGE COULD NOT BE MADE IN A SHORT PERIOD OF TIME WITHOUT CONSIDERABLE DISRUPTION. OFFICIALS ALSO INDICATED CONSIDERABLE INTEREST IN EXPANDING HUNGARY'S BUSINESS RELATIONS WITH WESTERN FIRMS AND NOTED WITH PRIDE RECENT CHANGES IN LAWS GOVERNING ESTABLISHMENT OF JOINT VENTURES AND OTHER COOPERATIVE ARRANGEMENTS WITH FOREIGN FIRMS. IT WAS AT THIS POINT THAT MR. MERSZEI SAID THAT HE CHALLENGED THE NATURE OF HUNGARIAN LIBERALIZATION OF BUSINESS LAWS AND PRACTICES.

4. MR. MERSZEI SAID THAT HE POINTED OUT TO GOH OFFICIALS THAT NEW JOINT VENTURE LAWS WERE CERTAINLY A STEP FORWARD. HOWEVER, AS WITH OTHER SUCH PROVISIONS REGULATING RELATIONS WITH WESTERN FIRMS, HUNGARIANS ALWAYS WANT TO COOPERATE ON CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BUDAPE 03225 01 OF 02 120915Z

THEIR OWN TERMS. HE SAID HE CITED DOW'S RECENTLY ESTABLISHED REPRESENTATIVE OFFICE IN BUDAPEST AS ONE EXAMPLE OF THIS. THIS OFFICE, HE SAID, IS OBSCURED BEHIND ORGANIZATIONAL FRAMEWORK OF EUROCOM STATE AGENCY, ONE OF TEN SUCH AGENCIES AUTHORIZED TO REPRESENT FOREIGN FIRMS. DOW CANNOT EVEN USE ITS OWN NAME. IT ALSO HAS NO IMPORT OR EXPORT RIGHTS. MR. MERSZEI SAID DURING MEETING THAT THIS SITUATION IS MOST UNSATISFACTORY, PARTICULARLY WHEN ONE CONSIDERS THAT DOW MAINTAINS ITS OWN OFFICES IN USSR, ROMANIA, POLAND, AND EAST GERMANY, COUNTRIES WHERE LAWS GOVERNING ACTIVITIES OF FOREIGN FIRMS ARE NOT AS LIBERAL AS HUNGARY'S. DOW'S OFFICES IN THESE COUNTRIES ARE MANAGED BY AMERICANS AND STAFFED BY CITIZENS OF THOSE COUNTRIES. WHILE THOSE OFFICES EARN HARD CURRENCY FOR THESE COUNTRIES, THEY ALSO CONTRIBUTE SIGNIFICANTLY TO EXPORTS FROM U.S. MR. MERSZEI SAID THAT HE EXPLAINED FRANKLY THAT EUROCOM COULD NOT HELP DOW, A MULTINATIONAL FIRM WITH CONSIDERABLE EXPERIENCE IN INTERNATIONAL BUSINESS. HE ADDED THAT ALTHOUGH DOW BEGAN TALKS WITH HUNGARIANS REGARDING JOINT VENTURE CHEMICAL PRODUCTION FACILITY, HE HAS INSTRUCTED HIS STAFF TO DISCONTINUE TALKS UNTIL DOW IS ABLE TO ESTABLISH

A TRULY REPRESENTATIVE OFFICE. ACCORDING TO MERSZEI, IF DOW'S REPRESENTATIVE OFFICE WERE COMPLETELY INDEPENDENT IN HUNGARY AND STAFFED BY AMERICAN MANAGER AND HUNGARIAN EMPLOYEES, THAT OPERATION COULD DOUBLE DOW'S CURRENT \$8 MILLION ANNUAL SALES TO HUNGARY AND COULD SIMILARLY GENERATE EXPORTS OUT OF HUNGARY.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BUDAPE 03225 02 OF 02 121053Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-03 INR-10
NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 L-03 /066 W
-----077454 121103Z /15

R 111456Z AUG 78
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 2179
INFO USDOC WASHDC

C O N F I D E N T I A L SECTION 2 OF 2 BUDAPEST 3225

5. MR MERSZEI NOTED THAT HUNGARIAN CHAMBER OFFICIALS AGREED WITH HIS STATEMENTS. MERSZEI SAID THAT MINISTER OF INTERNAL TRADE VILMOS SAGHY PROMISED THAT AT THE NEXT COUNCIL OF MINISTERS MEETING HE WOULD MENTION POINTS RAISED BY MR. MERSZEI. MERSZEI TOLD AMBASSADOR THAT SAGHY APPEARED TO AGREE THAT MAJOR CORPORATIONS DID NOT NEED STATE REPRESENTATIVE AGENCIES INTERVENING ON THEIR BEHALF IN HUNGARY. MERSZEI ALSO TOLD AMBASSADOR THAT ODON KALLOS, PRESIDENT OF THE HUNGARIAN CHAMBER, HAD BEEN NEEDLING HIM FOR SOME TIME TO MAKE STATEMENTS AS HE DID.

6. THE AMBASSADOR SAID THAT HSWP CHAIRMAN JANOS KADAR TOLD HIM ON ONE OCCASION THAT THE DEVELOPMENT OF THE ECONOMY IS THE MOST IMPORTANT ASPECT OF LIFE IN HUNGARY. THE AMBASSADOR ADDED THAT HUNGARY INDEED WANTS TO TRADE WITH THE WEST BUT HAS TO LEARN HOW TO DO SO. HE THEN ASKED MR. MERSZEI HOW MIGHT DOW TAKE ADVANTAGE OF CURRENT FAVORABLE ATMOSPHERE FOR TRADE BETWEEN THE U.S. AND HUNGARY. MR. MERSZEI SAID THAT GIVEN HUNGARY'S POOR ENERGY AND RESOURCE BASE, DOW COULD BEST TAKE ADVANTAGE OF CURRENT ATMOSPHERE BY EITHER SIMPLY EXPORTING TO HUNGARY OR, ALTERNATIVELY, BY PARTICIPATING IN A

CO-PRODUCTION ARRANGEMENT IN WHICH BOTH IMPORTS INTO AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BUDAPE 03225 02 OF 02 121053Z

EXPORTS FROM HUNGARY WOULD INCREASE AS A RESULT. MR. MERSZEI THOUGHT THAT THE PROPOSED \$25-35 MILLION DOW-TVK (TISZA CHEMICAL COMBINE) JOINT VENTURE PRODUCTION FACILITY WOULD BE AN EFFECTIVE MEANS OF ACCOMPLISHING THIS, AND THAT HUNGARY WOULD BENEFIT SIGNIFICANTLY FROM DOW'S KNOW-HOW. IN ADDITION TO BENEFITING DOW AND HUNGARY, SUCH AN ARRANGEMENT COUPLED WITH AN INDEPENDENT DOW REPRESENTATIVE OFFICE IN HUNGARY COULD ALSO INCREASE U.S. EXPORTS OF DOW'S PRODUCTS TO HUNGARY. MR. MERSZEI NOTED THAT IN 1977 DOW WAS SEVENTH LARGEST EXPORTER IN U.S.

7. IN COMMENTING ON DOW'S BUSINESS ACTIVITIES, MR. MERSZEI SAID THAT IN 1977 DOW'S TOTAL SALES AMOUNTED TO \$6.8 BILLION AND IN SALES DOW RANKED 24TH AMONG U.S. FIRMS. IN PROFITS DOW SEVENTH. SALES TO SOVIET UNION AND EASTERN EUROPE AMOUNTED TO \$250-300 MILLION IN 1977. HE ADDED THAT THIS FIGURE WAS LARGER THAN THAT FOR INTERNATIONAL HARVESTER AND SAID THAT A LARGE PROPORTION OF HARVESTER'S CURRENT SALES WERE REPAIR SERVICES AND REPLACEMENT PARTS.

8. COMMENT: HUNGARIAN CHAMBER OF COMMERCE INVITED THE GROUP OF WESTERN BUSINESS LEADERS OF HUNGARIAN DESCENT TO BUDAPEST IN ORDER TO ENCOURAGE THEM TO DEVELOP CLOSER BUSINESS RELATIONS WITH HUNGARIAN ENTERPRISES. AS SPOKESMAN FOR THE GROUP, MERSZEI, WHO CLEARLY IS MORE INTERESTED IN BUSINESS THAN SENTIMENTAL LINKS WITH THE OLD COUNTRY, CHALLENGED THE FREQUENTLY VOICED GOH CONCEPT OF COOPERATION WITH WESTERN FIRMS AND LET IT BE KNOWN RATHER FRANKLY THAT DOW WOULD NOT TOLERATE COOPERATION ARRANGEMENTS SOLELY ON HUNGARIAN TERMS. THAT THE CHAMBER'S PRESIDENT AND A GOH MINISTER WOULD AGREE WITH MERSZEI'S POINT OF VIEW IN A FORUM OF THIS TYPE AND PROMISE TO RAISE THIS VIEW IN DISCUSSIONS AT VERY HIGH
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BUDAPE 03225 02 OF 02 121053Z

LEVELS INDICATES THAT THERE IS CONCERN ABOUT THE PRESENT STATUS OF RELATIONS GOVERNING BUSINESS RELATIONS WITH FOREIGN FIRMS. WHILE THIS BY NO MEANS IMPLIES THAT THE EXISTING REGULATIONS WILL SOON CHANGE, IT SUGGESTS THAT THERE MIGHT BE SOME ADDITIONAL LIBERALIZATION OF THE APPLICATION OF THESE REGULATIONS IF HUNGARY EXPECTS THAT COOPERATION WITH WESTERN FIRMS WILL EASE THE BURDEN OF HARD CURRENCY EXPENDITURES FOR TECHNOLOGY IMPORTS FROM THE WEST. IN

OUR VIEW LOW-KEY, FRANK CRITICISM BY U.S. FIRMS, SUCH AS
DOW, WITH HIGH-LEVEL CONTACTS IN THE GOH IS AN
EFFECTIVE MEANS OF ENCOURAGING THE GOH TO CONTINUE
LIBERALIZING ITS BUSINESS PRACTICES AND RELATIONS WITH
WESTERN FIRMS.
KAISER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUSINESSMEN, AMBASSADORS, MEETINGS, VISITS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BUDAPE03225
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780330-0338
Format: TEL
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780870/aaaacgrr.tel
Line Count: 230
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: bfc58264-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 BUDAPEST 1967, 77 BUDAPEST 4126
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1759453
Secure: OPEN
Status: NATIVE
Subject: CALL BY DOW CHAIRMAN MERSZEI ON AMBASSADOR
TAGS: EEW, EIND, ETRD, HU, DOW CHEMICAL, (MERSZEI, ZOLTAN)
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/bfc58264-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014